50 years of bank nationalisation

What is the issue?

\n\n

The year 2019 marks the 50th anniversary of bank nationalisation in India.

\n\n

How did it unfold?

\n\n

\n
- The measure of bank nationalisation came into effect on 19 July 1969 under the Banking Companies (Acquisition and Transfer of Undertakings) Ordinance.
\n
- The ownership of 14 major commercial private banks - estimated to be controlling 70 of the deposits in the country - was transferred to the government.
\n
- The ordinance was soon after followed by an Act of the same name.
\n
- Till 1969, the State Bank of India (SBI) was the only bank that was not privately owned, which was called as the Imperial Bank before its nationalisation in 1955.
\n
- At Present, there are 19 nationalised banks in India
\n

\n\n

What was the reason behind the measure?

\n\n

\n
- There were primarily two reasons why the ownership of these 14 banks was transferred to the government.
\n
- First, there were 361 private banks which failed across the country in the period from 1947 to 1955, translating to an average of over 40 banks per

year.
\n
- This has resulted in depositors losing all their money as they were not offered any guarantee by their respective banks.
\n
- Second, these commercial banks were seen as catering to the large industries and businesses, ignoring the agricultural sector.
\n
- In 1950, only 2.3% of the bank loans were channelled to farmers, with the figure declining to 2.2% by 1967.
\n
- Also, it was estimated that 14 major commercial private banks controlled 70% of the deposits in the country.
\n
- Hence, the stated motive of this measure was to make credit availability easy for the “priority sector” – constituting agriculture, small industries, traders and entrepreneurs.
\n
- Moreover, the focus was also on opening up of bank branches in the rural and backward areas.
\n

\n\n

What was the consequence?

\n\n

\n
- The move failed to eradicate poverty and in scaling down inequalities of income, wealth and entitlements, especially in rural India.
\n
- The performance of nationalised banks, on the parameters of branch expansion as well as increasing the number of deposits, never surpassed that of private banks.
\n

\n\n

\n
- Moreover, even while it did serve the agriculture sector, the ones who reaped the maximum benefits in terms of borrowings were the well-off farmers, with the poorer and the needy ones being excluded.
\n
- The same trend applied in the case of traders, businesses and industries.
\n
- Thus the real purpose was that it gave the ruling party access to finance as

and when it needed without having to resort to black money.
\n
- Projects which had been given crores with the high reputation of corporate borrowers stalled.
\n
- Many of these loans had to be written off as bad debt, which has turned out as the NPA disaster in future.
\n
- Though bank nationalisation was made for the purpose of extending bank facilities to rural areas, financial inclusion was only increased post the implementation of Jan Dhan Yojana.
\n
- Thus, the government could have provided incentives for private commercial banks to open rural branches rather than nationalising them.
\n

\n\n

What are the takeaways?

\n\n

\n
- Even now, the restructuring of the PSU banks has mostly concentrated on mergers and consolidation, instead of focussing on the failure of due diligence on part of the management.
\n
- The government has taken the route of recapitalising these bad banks rather than shutting them down or privatising them, affecting taxpayer’s money.
\n
- Thus the
\n

\n\n

\n
- consolidation process should be completed covering all PSU banks, followed by promoting efforts towards
\n

\n\n

\n
- divestment.
\n
- Also, internationally credible managers should be hired to reform the management in PSBs and to bring accountability in the lending process.
\n

\n\n

\n\n

Source: Financial Express

\n\n

\n\n

\n\n

\n\n

\n\n

\n

